



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
SHELBY COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Shelby County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$ 1,227,821 from the prior fiscal year, resulting in a cash surplus of \$10,931,136 as of June 30, 2001. Revenues increased by \$821,366 from the prior year and disbursements decreased by \$3,021,910.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$5,065,000. Future collections of \$7,659,173 are needed over the next 20 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,398,000 as of June 30, 2001. Future principal and interest payments of \$1,909,419 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Bobby Stratton, Shelby County Judge/Executive

Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Shelby County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Shelby County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Shelby County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Shelby County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bobby Stratton, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2002 on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Shelby County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2002

SHELBY COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Bobby Stratton	County Judge/Executive
Bob Walters	Magistrate
Hobbie Henninger	Magistrate
Betty Curtsinger	Magistrate
Tony Carriss	Magistrate
Mike Whitehouse	Magistrate
Cordy Armstrong	Magistrate

Other Elected Officials:

Chick Hickman	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Katy Nichols	Circuit Court Clerk
Harold E. Tingle	Sheriff
Brad McDowell	Property Valuation Administrator
Tommy Sampson	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Collector
Susan Price	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

SHELBY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:		
Cash	\$ 8,170,926	
Road and Bridge Fund:		
Cash	1,772,737	
Jail Fund:		
Cash	32,449	
Local Government Economic Assistance Fund:		
Cash	13,984	
Emergency Medical Services Fund:		
Cash	95,711	
Revolving Fund:		
Cash	86,100	
Community Development Block Grant Fund:		
Cash	129,155	
Notes Receivable (Note 4A)	13,057	
Operating Account - Cash	23,253	
Payroll Revolving Account - Cash	1,512	
City Tax Account - Cash	2,174	\$ 10,341,058

Capital Projects Fund Type

Clear Creek Fund:		
Cash		270

Debt Service Fund Type

Special Fund:		
Cash	\$ 4,805	
Investments	625,000	629,805

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Other Resources

Capital Projects Fund Type

Amounts to be Provided in Future Years for General Obligation Bond Principal Payments (Note 6)	\$ 5,065,000
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Debt Service Fund Type

Special Fund:

Amounts to be Provided in Future Years for Capital Lease Payments (Note 4B & Note 5)	1,398,000
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Total Assets and Other Resources	<u>\$ 17,434,133</u>
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Liabilities and Fund Balances

Liabilities

General Fund Types

Community Development Block Grant Fund:

Deferred Revenue (Note 4A)	\$ 13,057	
Operating Account	23,253	
Payroll Revolving Account	1,512	
City Tax Account	<u>2,174</u>	\$ 39,996

Capital Projects Fund Types

Clear Creek Fund:

General Obligation Bond Principal Payments (Note 5)	5,065,000
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Debt Service Fund Types

Special Fund:

Capital Lease Obligations (Note 4B and Note 5)	1,398,000
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The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Fund Balances

Reserved:

General Fund Type

Revolving Fund	\$ 86,100	
Community Development Block Grant Fund	<u>129,155</u>	\$ 215,255

Debt Service Fund Type

Special Fund		629,805
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Capital Projects Fund Type

Clear Creek Fund		270
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Unreserved:

General Fund Type

General Fund	\$ 8,170,926	
Road and Bridge Fund	1,772,737	
Jail Fund	32,449	
Local Government Economic Assistance Fund	13,984	
Emergency Medical Services Fund	<u>95,711</u>	<u>10,085,807</u>
Total Liabilities and Fund Balances		<u>\$ 17,434,133</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

SHELBY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 12,170,343	\$ 8,297,016	\$ 1,479,676	\$ 751,765
Transfers In	1,791,420		342,881	491,000
Kentucky Advance Revenue Program	666,200	666,200		
Lease-Purchase Proceeds	723,000			
Total Cash Receipts	<u>\$ 15,350,963</u>	<u>\$ 8,963,216</u>	<u>\$ 1,822,557</u>	<u>\$ 1,242,765</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 11,104,246	\$ 6,000,158	\$ 1,580,335	\$ 1,249,035
Schedule of Unbudgeted Expenditures	530,276			
Schedule of Other Expenditures				
Transfers Out	1,791,420	1,448,539		
Capital Lease - Principal Paid	31,000			
Kentucky Advance Revenue Program Repaid	666,200	666,200		
Total Cash Disbursements	<u>\$ 14,123,142</u>	<u>\$ 8,114,897</u>	<u>\$ 1,580,335</u>	<u>\$ 1,249,035</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,227,821	\$ 848,319	\$ 242,222	\$ (6,270)
Cash Balance - July 1, 2000	<u>9,703,315</u>	<u>7,322,607</u>	<u>1,530,515</u>	<u>38,719</u>
Cash Balance - June 30, 2001	<u>\$ 10,931,136</u>	<u>\$ 8,170,926</u>	<u>\$ 1,772,737</u>	<u>\$ 32,449</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Types			
Local Government Economic Assistance Fund	Emergency Medical Services Fund	Revolving Fund	Community Development Block Fund
\$ 33,384	\$ 752,302 730,264	\$ 2,097	\$ 770,468
\$ 33,384	\$ 1,482,566	\$ 2,097	\$ 770,468
\$	\$ 1,479,457	\$	\$ 755,863
342,881			
\$ 342,881	\$ 1,479,457	\$ 0	\$ 755,863
\$ (309,497) 323,480	\$ 3,109 92,602	\$ 2,097 84,003	\$ 14,605 114,550
\$ 13,983	\$ 95,711	\$ 86,100	\$ 129,155

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Capital Projects Fund Types	Debt Service Fund Types
	Clear Creek Fund	Special Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 12,998	\$ 70,637
Transfers In	227,275	
Kentucky Advance Revenue Program		
Lease-Purchase Proceeds		723,000
Total Cash Receipts	<u>\$ 240,273</u>	<u>\$ 793,637</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$ 39,398
Schedule of Unbudgeted Expenditures	432,177	98,099
Schedule of Other Expenditures		
Transfers Out		
Capital Lease - Principal Paid		31,000
Kentucky Advance Revenue Program		
Repaid		
Total Cash Disbursements	<u>\$ 432,177</u>	<u>\$ 168,497</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (191,904)	\$ 625,140
Cash Balance - July 1, 2000	<u>192,174</u>	<u>4,665</u>
Cash Balance - June 30, 2001	<u>\$ 270</u>	<u>\$ 629,805</u>

* Cash Balance Includes Investments

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Shelby County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Shelby County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Shelby County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Shelby County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Emergency Medical Services Fund, Revolving Fund, and the Community Development Block Grant Fund.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of capital lease principal and interest and includes funds for the Special Fund. Debt service is provided through receipts of the Special Fund (See Note 4B).

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Clear Creek Fund is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Shelby County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Shelby County Fiscal Court: US 60 Water District and West Shelby Water District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

SHELBY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category 1	Category 2	Category 3	Carrying Amount	Market Value
U.S. Treasury Bills	\$ 625,000	\$ 0	\$ 0	\$ 625,000	\$ 625,000

Note 4. Notes Receivable and Capital Leases Payable

A. Community Development Block Grant Fund - Note Receivable

During project year 1991, CDBG No. B-91-DC-21-0001- (047) for \$132,000 was awarded to Shelby County and Logan's Uniform Division for a relocation and expansion project. The Corporation is obligated to repay the Shelby County CDBG Fund \$120,000 at a 3 percent interest rate over 10 years. The payments, including interest, are \$1,217 per month, and on June 30, 2001, the amount due was \$13,057.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Notes Receivable and Capital Leases Payable (Continued)

B. Special Fund - Notes Receivable and Capital Leases Payable

1) Simpsonville Sewer Plant

On September 1, 1992, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$560,000. This money was then subleased to the city of Simpsonville for the purpose of making improvements to the Simpsonville Sewer Plant. During the fiscal year, the county received \$17,000 principal and \$23,386 interest from the city of Simpsonville. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2000, was \$435,000.

2) US 60 Water District (Woodlawn)

On November 1, 1993, Shelby County Fiscal Court entered into a lease agreement with the KACoLT Program for \$237,000. The purpose of the lease was for waterline extension. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$11,000 principal and \$7,990 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2000, was \$171,000.

3) US 60 Water District (Rockbridge)

On August 7, 1996, Shelby County Fiscal Court entered into a lease agreement with the KACoLT Program for \$80,000. The purpose of the lease was for construction of rural water lines. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$3,000 principal and \$3,908 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2000, was \$69,000.

4) Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the KACoLT Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. During the fiscal year, the county received \$4,114 in interest from Mt. Eden Fire District. The county then paid this money to National City (the trustee). The balance of the receivable and the liability on June 30, 2000, was \$98,000.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Notes Receivable and Capital Leases Payable (Continued)

B. Special Fund - Notes Receivable and Capital Leases Payable (Continued)

The following is a schedule of future minimum lease payments as of June 30, 2001:

Year	Simpsonville Sewer Plant	US 60 Water District (Woodlawn)	US 60 Water District (Rockbridge)	Mt. Eden Fire District	Total
2002	\$ 40,468	\$ 18,495	\$ 6,732	7,931	\$ 73,626
2003	40,498	18,981	6,567	7,807	73,853
2004	40,484	18,440	6,402	7,684	73,010
2005	40,411	18,881	7,213	7,561	74,066
2006	40,385	18,296	6,993	7,437	73,111
Thereafter	438,474	128,609	68,048	148,766	783,897
Total Minimum Lease Payments	\$ 640,720	\$ 221,702	\$ 101,955	\$ 187,186	\$ 1,151,563
Interest Portion	(205,720)	(50,702)	(32,955)	(89,186)	(378,563)
Present Value of Minimum Lease Payments	<u>\$ 435,000</u>	<u>\$ 171,000</u>	<u>\$ 69,000</u>	<u>\$ 98,000</u>	<u>\$ 773,000</u>

Note 5. Capital Lease-Purchase Agreement - Special Fund

On June 21, 2001 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the construction of sewer lines. The lease term for this agreement is 10 years with the balance to be paid in full July 20, 2011. The total balance of the agreement is \$625,000 as of June 30, 2001.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease-Purchase Agreement-Special Fund (Continued)

The following is a schedule of future minimum lease payments as of June 30, 2001:

Year	Meadow Brook Sewer Project
2002	\$ 73,624
2003	76,650
2004	74,493
2005	77,255
2006	74,902
Thereafter	<u>380,932</u>
Total Minimum Lease Payments	\$ 757,856
Interest Portion	<u>(132,856)</u>
Present Value of Minimum Lease Payments	<u>\$ 625,000</u>

Total Present Value of Minimum Lease Payments in the Special Fund is \$1,398,000.

Note 6. General Obligation Bonds - Clear Creek Fund

Shelby County Fiscal Court (County) issued general obligation bonds of 5,200,000, series 1999, dated April 1, 1999, to fund the acquisition and construction of the Clear Creek Family Activities Center. These bonds were issued at varying interest rates ranging from 3.40% to 4.85%, and will be retired by August 1, 2020. Interest payments are due on February 1 and interest and principal on August 1. The Fiscal Court has entered into a lease agreement with the City of Shelbyville (City) and the Shelbyville/Shelby County Parks and Recreation Commissions (Parks Commission) for their portion of the bond issue. The City is responsible for \$500,000 in principal and interest payments; the Parks Commission \$2,200,000 in principal and interest payments and the County 2,500,000 in principal and interest. The City and the Parks Commission make their payments to the County, which in turn pays the paying agent. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended	Scheduled Principal	Scheduled Interest
June 30, 2002	\$ 130,000	\$ 222,320
June 30, 2003	140,000	217,390
June 30, 2004	195,000	211,095
June 30, 2005	200,000	203,490
June 30, 2006	210,000	195,390
Thereafter	<u>4,190,000</u>	<u>1,544,488</u>
Totals	<u>\$ 5,065,000</u>	<u>\$ 2,594,173</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2001, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Shelby County Jail Canteen Fund had income of \$85,316, less cost of goods sold of \$81,357, leaving net income at \$3,959 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

SHELBY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,864,368	\$ 8,297,016	\$ 5,432,648
Road and Bridge Fund	1,236,694	1,479,676	242,982
Jail Fund	1,319,340	751,765	(567,575)
Local Government Economic Assistance Fund	30,256	33,384	3,128
Emergency Medical Services	1,428,227	752,302	(675,925)
Revolving Fund	13,435	2,097	(11,338)
Community Development Block Grant Fund	829,521	770,468	(59,053)
<u>Capital Projects Fund Type</u>			
Clear Creek Fund		12,998	12,998
<u>Debt Service Fund Type</u>			
Special Fund	<u>46,329</u>	<u>70,637</u>	<u>24,308</u>
Totals	<u>\$ 7,768,170</u>	<u>\$ 12,170,343</u>	<u>\$ 4,402,173</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 7,768,170
Add: Budgeted Prior Year Surplus			<u>4,568,938</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 12,337,108</u>

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SCHEDULE OF OPERATING REVENUE

SHELBY COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 5,001,215	\$ 5,001,215	\$	\$
Excess Fees	614,021	614,021		
Licenses and Permits	83,799	83,799		
Intergovernmental Revenues	3,960,617	3,960,617		
Charges for Services	813,150	813,150		
Miscellaneous Revenues	1,137,180	1,057,669	9,113	70,398
Interest Earned	560,361	556,237	3,885	239
Total Operating Revenue	<u>\$ 12,170,343</u>	<u>\$ 12,086,708</u>	<u>\$ 12,998</u>	<u>\$ 70,637</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

SHELBY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,121,841	\$ 1,887,005	\$ 234,836
Protection to Persons and Property	2,542,635	2,394,595	148,040
General Health and Sanitation	2,084,429	1,729,585	354,844
Social Services	491,200	479,315	11,885
Recreation and Culture	350,991	344,157	6,834
Roads	1,596,007	1,454,387	141,620
Capital Projects	86,800		86,800
Administration	3,016,876	2,775,804	241,072
Total Operating Budget - All General Fund Types	\$ 12,290,779	\$ 11,064,848	\$ 1,225,931
Other Financing Uses:			
Transfers to Clear Creek Fund	227,275	227,275	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 12,518,054</u>	<u>\$ 11,292,123</u>	<u>\$ 1,225,931</u>
Expenditure Categories	DEBT SERVICE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	\$ 46,329	\$ 39,398	\$ 6,931
Total Operating Budget - All Debt Service Fund Types	\$ 46,329	\$ 39,398	\$ 6,931
Other Financing Uses:			
KACO Leasing Trust Equipment Lease- Principal	31,000	31,000	
TOTAL BUDGET - DEBT SERVICE FUND TYPE	<u>\$ 77,329</u>	<u>\$ 70,398</u>	<u>\$ 6,931</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES

SHELBY COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Special Fund</u>	<u>Clear Creek Fund</u>
General Obligation Bonds:		
Principal	\$	\$ 100,000
Interest		226,410
Construction Costs	98,000	105,767
Miscellaneous	99	
	<hr/>	<hr/>
Totals	<u>\$ 98,099</u>	<u>\$ 432,177</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bobby Stratton, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Shelby County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Bobby Stratton, Shelby County Judge/Executive

Members of the Shelby County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Shelby County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Shelby County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Shelby County's management. Our responsibility is to express an opinion on Shelby County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shelby County's compliance with those requirements.

In our opinion, Shelby County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Shelby County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2002

FINDINGS AND QUESTIONED COSTS

SHELBY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Shelby County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Shelby County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Shelby County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Shelby County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - Brighton Business Center Project.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Shelby County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SHELBY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants-		
Brighton Business Center Project (CFDA #14.228)	B-98-DC-21-0001	\$ 740,864
<u>U.S. Department of the Interior</u>		
Passed-Through State Department for Local Government:		
Land and Water Conservation Program (CFDA #15.916)	21-01210	\$ 6,875
<u>U.S. Department of Justice</u>		
Direct Program:		
COPS Universal Hiring		
Program Grant	1999-UM-WX-3178	\$ 58,197
(CFDA #16.710)	2000-SH-WX-0002	30,865
Total U.S. Department of Justice		\$ 89,062
<u>U.S. Department of Transportation</u>		
Passed-Through State Department for Local Government:		
Recreational Trail Grant (CFDA #20.219)	RTP # 109-00	\$ 40,000

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2001
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	M-00228845	\$ 3,760
Total Cash Expenditures of Federal Awards		<u>\$ 880,561</u>

SHELBY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SHELBY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

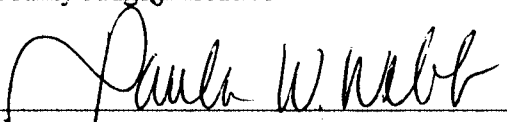
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SHELBY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer